

Message Text

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TAGS: ETEL, EINV, JA
SUBJECT: U.S. COMPANIES' ATTEMPTS TO MARKET TIME-SHARING SERVICES
IN JAPAN

REF: STATE 166645

SUMMARY: EFFORTS OF TWO U.S. COMPUTER TIME-SHARING SERVICE COMPANIES TO ENTER JAPANESE MARKET FOLLOWING CAPITAL LIBERALIZATION IN COMPUTER SOFTWARE INDUSTRY ON APRIL 1, 1976 ARE MEETING OPPOSITION FROM JAPANESE TELECOMMUNICATIONS MINISTRY (MPT). IT HAS STATED PUBLICLY (THOUGH NO OFFICIAL DECISION WILL BE GIVEN UNTIL END OF JULY) THAT U.S. COMPANIES' APPLICATIONS ARE ILLEGAL UNDER DOMESTIC TELECOMMUNICATIONS LAW. MPT SAYS U.S. COMPANIES MUST LOCATE THEIR OPERATIONS IN JAPAN AND NOT USE OVERSEAS FACILITIES. THIS WILL MAKE IT VERY COSTLY AND PRACTICALLY IMPOSSIBLE FOR U.S. COMPANIES TO SHARE IN THE POTENTIAL SEVERAL HUNDRED MILLION DOLLAR JAPANESE TIME-SHARING MARKET. MINISTRY'S ATTITUDE APPEARS TO EMBASSY DESIGNED TO PROTECT DOMESTIC TIME-SHARING OPERATIONS OF NTT PUBLIC TELEPHONE CORPORATION. EMBASSY PROPOSES APPROACHING FONMIN WITH AIDE MEMOIRE OUTLINING OUR CONCERN WITH THIS NEW APPARENT NTB, AND IF FONMIN DOES NOT OBJECT, TO CARRY ON DISCUSSIONS DIRECTLY WITH MPT.
END SUMMARY

1. AS THE FINAL STEP IN ITS PROGRAM OF FOREIGN CAPITAL
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LIBERALIZATION, THE JAPANESE GOVERNMENT LIBERALIZED

FOREIGN INVESTMENT IN THE COMPUTER SOFTWARE INDUSTRY IN APRIL, 1976. THE JAPANESE SOFTWARE MARKET IS ONE IN WHICH U.S. COMPANIES SHOULD HAVE A STRONG INTEREST FOR TWO REASONS: FIRST, MITI ADVISORY COUNCIL PROJECTED IN JULY, 1976 REPORT THAT JAPANESE SOFTWARE MARKET WILL GROW AT 16.4 PERCENT ANNUAL RATE AND WILL BECOME 4.4 BILLION DOLLAR MARKET IN 1985. ADDITIONALLY, JAPANESE COMPANIES REPORTEDLY LAG 5 TO 10 YEARS BEHIND U.S. SOFTWARE COMPANIES, AND THIS WOULD GIVE U.S. SOFTWARE COMPANIES A TECHNOLOGICAL ADVANTAGE IN THE JAPANESE MARKET.

2. RECENT JAPANESE NEWSPAPER ARTICLE REPORTED THAT FOLLOWING CAPITAL LIBERALIZATION IN APRIL, TWO U.S. COMPANIES, CONTROL DATA CORPORATION (CDC) AND TYME SHARE, INC., APPLIED TO GOJ TO ENGAGE IN TIMESHARING SERVICES (TSS) OPERATIONS. BOTH COMPANIES PLAN TO UTILIZE COMPUTER CENTRAL PROCESSING UNITS (CPU) BASED IN THE U.S./USING TERMINALS LOCATED IN JAPAN, USERS WOULD SEND DATA VIA LEASED INTERNATIONAL CIRCUITS FOR PROCESSING IN U.S. ACCORDING TO NEWSPAPER ARTICLE, JAPANESE MINISTRY OF POST AND TELECOMMUNICATIONS (MPT) STATES THAT APPLICATIONS ARE ILLEGAL UNDER ARTICLES 55-(13) AND 55-(18) OF JAPAN'S PUBLIC TELECOMMUNICATIONS LAW. THESE ARTICLES STATE THAT MEDIATION OF COMMUNICATIONS FOR A THIRD PARTY CANNOT BE ENGAGED IN UNLESS MPT APPROVES THIS COMMUNICATIONS MEDIATION AS BEING IN THE "PUBLIC INTEREST". THE MEDIATION OF COMMUNICATIONS, USUALLY REFERRED TO IN THE U.S. AS MESSAGE SWITCHING, IS AN IMPORTANT CONCEPT IN THE PROVISION OF DATA COMMUNICATIONS SERVICES. MPT TOLD EMBOFF THAT ONLY NIPPON TELEGRAPH AND TELEPHONE CORPORATION (NTT) AND KOKUSAI DENWA DENSHIN (KDD), THE OFFICIAL JAPANESE DOMESTIC AND INTERNATIONAL TELECOMMUNICATIONS CARRIERS, ARE ALLOWED TO ENGAGE IN MESSAGE SWITCHING. TO GET AROUND THIS PROVISION OF LAW IN THE DOMESTIC TSS INDUSTRY, JAPANESE EMPLOY AN UNUSUAL SITUATION IN WHICH THE USER OF TIMESHARING SERVICES CANNOT OWN HIS OWN TERMINAL; JAPANESE USER RENTS OR LEASES A TERMINAL BELONGING TO THE TSS COMPANY. IN THIS WAY, JAPANESE LAW IS SATISFIED BECAUSE NO "THIRD PARTY" IS TECHNICALLY INVOLVED. THIS ALSO MEANS THAT A JAPANESE COMPANY WISHING TO USE SOFTWARE PROGRAMS OF, FOR LIMITED OFFICIAL USE

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EXAMPLE, THREE DIFFERENT TIMESHARING COMPANIES, MUST HAVE THREE TERMINALS ON HIS PREMISES. WHEN ASKED BY EMBOFF WHETHER A SIMILAR SYSTEM COULD BE USED BY U.S. COMPANIES WISHING TO ENGAGE IN INTERNATIONAL TIMESHARING OPERATIONS, I.E., JAPANESE USERS WOULD RENT OR LEASE A TERMINAL IN JAPAN FROM A U.S. COMPANY WHICH COULD COMMUNICATE WITH MAIN COMPUTER LOCATED IN U.S., MPT OFFICIAL REPLIED THAT THIS IS A COMPLICATED PROBLEM AND ADDED THAT HE COULD

NOT RESPOND.

3. DAVE GREGG, PRESIDENT OF CDC FAR EAST, TOLD EMBOBB THAT CDC HAS NOT YET OFFICIALLY APPLIED TO GOJ, AND THAT MPT HAD STATED TO CDC THAT THEIR ATTITUDE TOWARDS CDC'S ANTICIPATED APPLICATION WOULD CHANGE IF CDC'S CPU WERE LOCATED IN JAPAN AND NOT U.S./FOR A U.S. COMPANY TO ESTABLISH FACILITIES IN JAPAN INSTEAD OF UTILIZING ITS COMPUTER SYSTEMS BASED IN THE U.S. MEANS THAT THE COST OF CONDUCTING OPERATIONS WOULD BE SIX TIMES HIGHER BECAUSE IT WOULD NEED TO LEASE COMPUTER SYSTEMS IN JAPAN AND PROVIDE OFFICE SPACE AND PERSONNEL TO MAINTAIN THOSE SYSTEMS. ALTHOUGH IT MIGHT APPEAR THAT MPT'S ATTITUDE SEEKS TO ENCOURAGE INVESTMENT IN JAPAN-LOCATED FACILITIES, THE PRACTICAL EFFECT OF SUCH AN ATTITUDE IS THAT THE COSTS OF ESTABLISHING JAPAN-BASED OPERATIONS WOULD BE EXCESSIVE FOR ALMOST ALL U.S. TIMESHARING COMPANIES AND WOULD, THEREFORE, DISCOURAGE THEIR INVESTMENT IN THIS FIELD.

4. SITUATION IS FURTHER COMPLICATED BY THE FACT THAT NTT ITSELF ENGAGES IN TIMESHARING SERVICE OPERATIONS. NTT OFFERS TSS PACKAGES TO JAPANESE COMPANIES FOR BOTH SALES AND INVENTORY MANAGEMENT AND SCIENTIFIC AND TECHNICAL COMPUTATION. EMBASSY CHECK WITH GOJ-AFFILIATED COMPUTER INFOR

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CENTER HAS REVEALED THAT 1,500 OF THE 2,800 JAPANESE COMPANIES UTILIZING TSS EMPLOYED THE SERVICES OF NTT, AND 3,500 OF THE 10,000 TERMINALS IN JAPAN LINKED TO

TSS CENTRAL COMPUTERS ARE ON-LINE WITH THE NTT COMPUTER. THERE ARE ABOUT TEN PRIVATE COMPANIES IN JAPAN ALSO PROVIDING TIMESHARING SERVICES. HOWEVER, EMBASSY RESEARCH TO DATE HAS SHOWN THAT PRIVATE TSS COMPANIES COMPLEMENT RATHER THAN COMPETE WITH NTT'S TSS OPERATIONS. SOME PRIVATE TSS COMPANIES PERFORM COMPUTATIONS ONLY FOR OTHER COMPANIES AFFILIATED WITH THEM IN VERTICAL BUSINESS GROUPINGS, E.G., MITSUBISHI. OTHER PRIVATE COMPANIES PROVIDE TSS FOR SPECIALIZED SOFTWARE PACKAGES SUCH AS NUCLEAR ENGINEERING, WHICH NTT DOES NOT PROVIDE. THE ENTRANCE OF U.S. TSS COMPANIES INTO THE JAPANESE MARKET WOULD, THEREFORE, COMPETE DIRECTLY WITH NTT'S TIMESHARING OPERATIONS AND DRAW CUSTOMERS AWAY FROM NTT BY VIRTUE OF THE SUPERIOR SOFTWARE AND COMPETITIVE PRICES WHICH U.S. COMPANIES CAN OFFER. IN ADDITION, MAKING DIFFICULT THE ENTRANCE OF U.S. TSS COMPANIES INTO THE JAPANESE MARKET WOULD ALSO GIVE JAPANESE SOFTWARE HOUSES ADDITIONAL TIME TO IMPROVE THEIR TECHNOLOGY: IN FACT, MITI HAS ESTABLISHED A PROGRAM TO DEVELOP JAPANESE DOMESTIC SOFTWARE INDUSTRY, HAS ORGANIZED 17 SOFTWARE FIRMS INTO A RESEARCH CARTEL, AND IS PROVIDING AN R & D BUDGET. BECAUSE JULY'S 1976 MITI STUDY REFERRED TO ABOVE INDICATES THAT THE JAPANESE DOMESTIC MARKET FOR TIMESHARING AND REMOTE BATCH PROCESSING WILL INCREASE 27.5 TIMES TO LIMITED OFFICIAL USE

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700 MILLION DOLLARS IN 1985, THERE IS MUCH AT STAKE.

5. MPT OFFICIALS TO WHOM EMBOFF SPOKE INDICATED THAT THE QUESTION OF CDC'S AND TYME SHARE'S APPLICATIONS IS A POLICY MATTER. EMBASSY'S CONCLUSION AT THIS POINT IS THAT MPT IS OPPOSING U.S. COMPANIES' APPLICATIONS IN ORDER TO PROTECT THE OVERWHELMING MARKET SHARE OF NTT, AS WELL AS TO GIVE PRIVATE COMPANIES MORE TIME TO DEVELOP SOPHISTICATED SOFTWARE PACKAGES. IN DISCUSSING THIS MATTER WITH EMBOFF ON JULY 13, CDC'S GREGG SAID THEY HAD SPOKE TO JAPANESE REPORTER WHO WROTE ARTICLE BASED ON INTERVIEWS WITH MPT OFFICIALS. ACCORDING TO GREGG, JAPANESE REPORTER SAID HE WAS TOLD OFF-THE-RECORD BY MPT OFFICIALS THAT THE REASON MPT IS TAKING SUCH A STRONG STAND IN THIS CASE IS BECAUSE OF A COMPLAINT FROM NIT AGAINST THE ENTRANCE OF THE U.S. COMPANIES.

6. EMBASSY BELIEVES THAT THE PROVISION OF INTERNATIONAL DATA COMMUNICATIONS SERVICES IS IMPORTANT NOT ONLY FOR ITS COMMERCIAL ASPECTS, E.E., EXPORT OF U.S. SERVICES TO JAPAN, BUT ALSO IS ESSENTIAL TO THE DEVELOPMENT AND PROMOTION OF COMMERCIAL, CULTURAL AND SCIENTIFIC RELATIONS BETWEEN OUR TWO COUNTRIES. TO PROHIBIT INTERNATIONAL DATA COMMUNICATIONS SERVICES IN TODAY'S WORLD IS ALMOST THE SAME

AS PROHIBITING INTERNATIONAL TELEPHONE CALLS, TELEXES, OR
TELEGRAMS. BECAUSE THE EMBASSY BELIEVES THAT THE PRO-
VISION F INTERNATIONAL DATA COMMUNICATIONS SERVICES
IS THEREFORE IN THE PUBLIC INTEREST, IT SHOULD FALL UNDER
THE EXCEPTIONS OF ARTICLE 55-(13) AND 55-818) WHICH THE
MPT CAN GRANT. HOWEVER, IN SEEKING TO DETERMINE HOW THE
MPT DETERMINES "PUBLIC INTEREST," THE EMBASSY WAS REFERRED
TO MPT ORDINANCE 38 OF JULY 31, 1953, ARTICLE 4-12-2.
THIS ARTICLE DEFINES PUBLIC INTEREST AS MENTIONED IN
ARTICLE 55-(13) AS MEANING CASES WHEN NTT OR KDD ADMIT
THAT USE BY THIRD PARTIES OF TELECOMMUNICATIONS CIRCUITS
IS NECESSARY FOR THE PUBLIC INTEREST AND "IT DOES NOT
HINDER THE BUSINESS OPERATIONS OF NTT OR KDD." WHEN NTT
POSSESSES A 50 PER CENT MARKET SHARE IN AN INDUSTRY WHICH
IS EXPECTED TO GROW 27.5 TIMES BETWEEN NOW AND 1985, IT
IS DIFFICULT TO CONCEIVE THAT NTT WOULD ADMIT THAT
ENTRANCE OF U.S. COMPANIES DOES NOT HINDER NTT'S BUSINESS
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OPERATIONS IN THE TIMESHARING FIELD.

7. ONLY INTERNATIONAL TSS OPERATION IN JAPAN AT PRESENT
IS DENTSU-G.E. TIE-UP. KDD OFFICIALS TOLD EMBASSY ON
JULY 14 THAT MPT AND KDD WERE NOT AWARE AT TIME OF DENTSU
APPLICATION THAT MESSAGE SWITCHING WOULD BE INVOLVED. IN
ANY EVENT, KDD INDICATED POTENTIAL "ILLEGALITY" OF DENTSU'S
OPERATION IS MOOT POINT BECAUSE DENTSU-G.E. WILL SWITCH
ITS OPERATIONS TO JAPAN THIS YEAR.

8. EMBASSY PROPOSES APPROACHING FONMIN WITH AIDE MEMOIRE
OUTLINING OUR CONCERN THAT MPT'S ATTITUDE TOWARDS
INTERNATIONAL TIMESHARING OPERATIONS IS ERECTING A
NON-TARIFF BARRIER TO THE IMPORT OF U.S. SERVICES AND
SEEKS TO EXCLUDE U.S. COMPANIES FROM MAJOR JAPANESE
MARKET. IF FONMIN HAS NO OBJECTION, WE HOPE TO PRE-
SENT OUR VIEWS DIRECTLY TO MPT POLICY OFFICIALS BEFORE
THEY OFFICIALLY ANNOUNCE THEIR DECISION AND ARE CAUGHT
IN FACE-SAVING SITUATION. DIRECT DISCUSSIONS WITH
MPT OFFICIALS MIGHT ALSO MAKE THEM MORE AWARE OF INTER-
NATIONAL IMPLICATIONS OF WHAT THEY ARE DOING.

9. ACTION REQUESTED: EMBASSY WOULD APPRECIATE DEPARTMENT SENDING
INFO ON CCITT RECOMMENDATIONS MENTIONED IN REFTEL.
SHOESMITH

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